THE AMERICAN SYSTEM

The American System was conceived by Henry Clay and supported by nationalists like John Quincy Adams during the "Era of Good Feelings." Clay felt the United States consisted of two sections: the industrial Northeast and the agricultural South and West. In his vision, the Northeast would provide industrial products for the South and West, while they in turn would provide foodstuffs and agricultural products for the Northeast. In order to accomplish this, high protective tariffs needed to be instituted, a national bank maintained, and internal improvements built, financed by the federal government. The battles over this program highlighted and increased the sectional tensions that would ultimately help lead to the American Civil War.

INTERNAL IMPROVEMENTS

The building of roads, canals, and later railroads, was essential for growth West. The tremendous amounts of capital needed for such ventures made Federal grants desirable. But, while the Northeast and the West favored increased taxes for these purposes, the South usually opposed them because they traditionally had used their extensive river network for transportation and realized that most improvements would not be built in the South. The South also feared that the government might have to raise the tariff to pay for internal improvements. Presidents Madison, Monroe, and Adams persuaded Congress to appropriate some money for internal improvements, but President Jackson virtually ended Federal support with his Maysville Road veto. Until government funding ran out, **the National Road (or Cumberland Road)** was extended from Cumberland, Maryland (1811), to Vandalia, Illinois (1839), although states built most internal improvements themselves, including the extension of the National Road into a system of turnpikes (toll roads). Eventually, the massive spending by states on internal improvements helped lead to inflationary trouble and the Panic of 1837.

Distribution	This was Clay's plan to provide Federal money, through the distribution of proceeds from land sales, among the states to be used for internal improvements. Both the South and West opposed distribution: the South because the government might have to rely on higher tariffs so as not to deplete the treasury; the West because the price of land would remain high to provide money to the states. For a time, distribution provided some Federal money for internal improvements. Through his veto of legislation, **President Tyler** ended any chance to continue government subsidies for internal improvements using the sale of public lands .

TARIFFS

A tariff is a tax placed on foreign products being imported into the United States. **Revenue Tariffs** are designed to make money for the Federal government, while **Protective Tariffs** are used to make American products more competitive. As the United States Congress began to pass protective tariffs, sectional differences developed. Southerners believed that tariffs did not benefit them because industry was located almost entirely in the Northeast, and they purchased many of their manufactured goods either from foreign countries or the Northeast--either way, as a result of protective tariffs, they would pay higher prices. The South was also afraid that Great Britain, which purchased much of the South's cotton and tobacco, would place a retaliatory English tariff on its products, making their cotton more expensive than cotton from India or tobacco more expensive than Caribbean tobacco.

Tariff of 1789	The first tariff in United States history was part of Hamilton's Financial Plan. Although Hamilton asked for a high protective tariff, Congress mustered only enough votes to pass a revenue tariff of 10% on most imported goods. This helped pay off the nation's debts.
Tariff of 1816	A demand for a protective tariff mounted as the close of the War of 1812 allowed English manufacturers to dump such quantities of low-priced goods in the United States that infant native industries were threatened. The resulting Tariff of 1816 imposed duties of 25%. Nationalism led to the Tariff's support by the South and the West.
Tariff of 1824	Protectionists demanded a protective tariff, first defeated by Southerners in 1820. Congress passed a protective tariff of 33% on many imported goods. The South felt the tariff did not benefit them.
Tariff of 1828	Unexpectedly, political manipulations lead to a tariff of almost 50% on most manufactured goods was passed and promptly named the "Tariff of Abominations," or "The Yankee Tariff" by Southerners. In response to this tariff, Calhoun, in his *Exposition of Protest,* stated that Southern states had a right to nullify federal laws that did not benefit their states and therefore did not have to collect a tariff.
Tariff of 1832	Because of Southern discontent with the Tariff of 1828, Congress passed the Tariff of 1832 which lowered tariff levels to approximately 35%. South Carolina's legislature, still upset by the "unfair" tariff, issued a *Nullification Proclamation* , which provided a legal basis for refusing to collect the tariff within their state. When President Jackson threatened to send Federal troops to enforce collection, through the Force Act, South Carolina eventually rescinded the *Proclamation,* ending the Nullification Crisis.
Tariff of 1833	In an effort to avoid a civil war over the tariff issue, Congress passed the Compromise Tariff of 1833, which lowered tariffs to levels acceptable to both sections of the country. This tariff allowed South Carolina to save face and rescind the *Nullification Proclamation,* avoiding the implementation of the Force Act.

Tariff of 1842	The Tariff of 1842 slightly raised duties. After President Tyler twice vetoed bills allowing distribution while the tariff was high (over 20%), Clay gave up the struggle to secure both distribution and a high tariff, thus ending all chances for distribution. After 1842 the Whigs were so divided that no further legislation was enacted.

THE BANK OF THE UNITED STATES

Part of Hamilton's financial plan, the National Bank was used by the Federal government to deposit its monies, sell government bonds, and provide loans for businesses. In theory, the Bank could only print as much money as it had assets of gold and silver (specie), and commercial paper to cover its "hard currency." It also encouraged a sound monetary system by discouraging state banks from issuing bank notes in excess of their assets by threatening to call in loans and by placing a 10% tax on the use of government currency.

The First Bank of the U.S., 1791-1811	After it had survived attacks by Jeffersonian "strict constructionists," the First Bank of the United States was not rechartered by Congress in 1811.
The Second Bank of the United States, 1816-1836	After the failure of Congress to recharter the First National Bank in 1811, currency needs were supplied by paper money issued by state-chartered banks. As most banks printed excessive quantities without adequate specie (hard currency) reserves, they were unable to withstand the financial strain of the wartime period. All banks outside of New England suspended specie payment, leaving only paper money in circulation. Business interests demanded a sound National system of finance--a second Bank was chartered in 1816. The state of Maryland attempted to destroy the Bank on constitutional grounds, through a tax. Chief Justice John Marshall's court, in ***McCulloch v. Maryland*** (1819), upheld the right of Congress to charter a national bank, thus writing into National law the doctrine of implied powers. "The power to tax is the power to destroy."
The Bank War	President Jackson, like most Westerners and Southerners, felt that the National Bank was more harmful than beneficial since the majority of the stock in the Bank was controlled by wealthy individuals living in the Northeast and Europe. Worse, he claimed, the Bank had failed to establish a uniform and sound currency. In addition, loans were also difficult for farmers and small business to acquire since the National Bank required adequate security on its loans. Since most farmers were debtors, they favored the "soft currency" (paper money) issued by state and local banks. Because such currency could simply be printed without being backed up by gold or silver, it resulted in inflation, making money worth much less and debts easier to repay. The Bank of the United States was made the major issue in the election of 1832, after President Jackson vetoed the Bank's recharter, in what became known as the **Bank War**. President Jackson took his victory over Clay as a mandate to destroy the Bank. President Jackson struck the final disabling blow by removing Federal funds from the Bank and placing the money in his "pet banks."
The Panic of 1837	The closure of the National Bank in 1836 helped cause inflation by encouraging **"wildcat banking."** This fact, coupled with other economic problems, brought on a depression in 1837and helped ensure the defeat of President Van Buren in 1840. After this, banks of all kinds were viewed by many as risky, leading to the Independent Treasury Plan and the advocacy of using only hard currency (specie) as tender.
The Third Bank of the United States	The Independent Treasury Bill was repealed in August of 1841, but an act to establish a Third National Bank was vetoed by President Tyler on constitutional grounds. This act caused a split in the Whig Party that drove a wedge between the Party and President Tyler.

THE AMERICAN SYSTEM

Review Questions

1 What did Henry Clay hope to achieve with the American System?

2 Which sections of the country were agricultural?

3 T/F: The American System contributed to sectionalism.

4 In the American System, how would internal improvements be funded? Why might the West have been against this?

5 Why was the South against federally funded internal improvements?

6 Give an example of a federally funded internal improvement of the era.

7 In general, which presidents supported federally funded internal improvements and which did not?

8 In which year was the Nation's first protective tariff passed? Why was this?

9 Why was the South against protective tariffs?

10 How was the Nullification Crisis solved?

11 What made President Tyler an unpopular Whig?

12 Which group first challenged the Bank of the United States?

13 How was the Second Bank of the United States destroyed?

14 Why was the National Bank hated by agricultural interests? What type of banks did farmers prefer and why?

15 Who paid for most of the internal improvements built?

16 What was one result of state spending for internal improvements and "wildcat" banking?

17 How much of the American System was borrowed from Federalist Alexander Hamilton's financial plan?

18 Why wasn't Clay's American System fully adopted? Had it been implemented, what would have been the consequences?

19 Knowing what you know now, If you were a congressman in the early 1800s, would you have supported the American System? Why or why not?